

**STATE INVESTMENT COMMISSION  
MINUTES  
March 27, 2002**

The State Investment Commission meeting was called to order by T., Kevin Flanery, Secretary, Finance and Administration Cabinet, on March 27, 2002 at 2:05 p.m. at the Bank of Louisville, 500 West Jefferson, Louisville, KY. Other members present were Orson Oliver, Bank of Louisville; and Karen Mayes, proxy for Jonathan Miller, Treasurer.

Secretary Flanery confirmed that a quorum was present and that the press had been notified of the meeting. A motion was made by Mr. Oliver and seconded by Ms. Mayes to approve the minutes of the December 19, 2001 meeting.

Gordon L. Mullis, Executive Director, Office of Financial Management ("OFM"), provided a brief economic update for the Commission members. Mr. Mullis indicated that interest rates remained unchanged for the present, but changes are predicted in June or August of this year. During the first quarter, Gross Domestic Product continues to grow at an annual 6 percent rate. Core is down 1.3 percent excluding oil. Productivity has increased, unit labor cost is falling, and earnings are expected to accelerate. National retail sales were up in February and consumer confidence has climbed to pre-September levels in several surveys. New home sales are down 2.8 percent to a seasonally adjusted 5.88 percent. Mr. Oliver noted that the Fed would be cautious about the rate changes and that the neutral bias was not a real change. A strong rebound in corporate earnings would be needed before rates would change.

Mr. Dwight Price, portfolio manager, Office of Financial Management, provided an update on the performance of the Commonwealth's portfolio.

Mr. Price and Mr. Mullis provided an update on the selection of State Street Bank to provide custodial banking services to the Commonwealth. Effective March 1, State Street Bank became the custodial bank for the Commonwealth through Farmers Bank. The transfer of custodial services to State Street was relative smooth. Among the services provided by State Street Bank will be on-line access to the Commonwealth's portfolio that will assist the investment section with MARS and the Auditor of Public Accounts reporting requirements.

Mr. Mullis provided an update on the extension of the securities lending contract with Credit Suisse First Boston. The contract with Credit Suisse First Boston ("CSFB") was extended for a period of one year at a floor of 14 basis points. CSFB is performing above the floor at this time.

Mr. Mullis introduced Steve Jones to the Commission members. Mr. Jones joins the investment staff and will perform the responsibilities of the asset backed and CMO trader. In addition, given his background and experience, he will assist in researching various investment options and performance evaluations.

Mr. Mullis informed the Commission about the process review being performed by Cabinet personnel. The goal is to assess the procedures being used and the flow of duties with an expectation of suggested changes to streamline processes, strengthen internal controls and provide for cross-training and needed redundancy of duties.

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Secretary Flanery asked if there was any further business before the Commission. With no further business before the Commission, a motion was made by Mr. Oliver and seconded by Ms. Mayes to adjourn the meeting. Motion CARRIED and the meeting was adjourned at 2:50 p.m.

Respectfully submitted,

Gordon Mullis  
Secretary